



and

***— The —
Student Loan
— PeopleSM —***

2004 Annual Report

A message from Gov. Ernie Fletcher

As Governor of Kentucky, higher education is one of my top priorities. A college education or technical training plays a critical role in determining one's success in today's fast-paced, technology-driven economy. Kentucky offers excellent higher education opportunities throughout the state, with public and private colleges and universities, community and technical colleges, trade schools and online programs.

Higher education can be a costly endeavor, but student financial aid helps thousands of Kentuckians pursue a higher education every year. The Commonwealth offers our citizens a unique balance of need-based grant and merit-based Kentucky Educational Excellence Scholarships (KEES), both of which are funded by Kentucky Lottery proceeds. Besides state grants and KEES, the Kentucky Higher Education Assistance Authority and The Student Loan People administer teacher and osteopathic medicine scholarships, work-study, savings, and Kentucky's lowest-cost Federal Stafford Loans through the BestStart, Best in Class and Best in Care programs.

Today's investment in higher education and student financial aid will generate substantial returns in the coming years. Working together, we will achieve a brighter future for individual Kentuckians and all of the Commonwealth.



Sincerely,
Ernie Fletcher, Governor
Commonwealth of Kentucky

Board of Directors

(as of June 30, 2004)

Joey B. Bailey, Louisville
Marcia Kuegel Carpenter, Owensboro
Austin B. Carroll, Hopkinsville
Janis G. Garr, Lexington
Ronald L. Green, Louisville
Shirley A. Huelsmann, Fort Mitchell
Dr. Jim A. Jackson, Frankfort
Albert A. Kirkpatrick, Louisville
Bobbie D. Powell, Louisville
John G. Prather, Jr., Somerset

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Kentucky Colleges and Universities
Dr. Thomas D. Layzell, President, Council on
Postsecondary Education
Jonathan Miller, State Treasurer
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Kentucky Department of Education

Senior Leadership

Dr. Joe L. McCormick, Executive Director and CEO
Janice C. Ernst, Chief of Staff
Charles Robinson, Chief Financial Officer
Blake Tanner, KHEAA Chief Operating Officer
Roger B. Tharp, KHESLC Chief Operating Officer
Scotty Bryan, Chief Information Officer
Ted Franzeim, Senior Vice President for Customer Relations
Rick Casey, General Counsel

Marcia Kuegel Carpenter Board Chair

Carpenter was appointed to the KHEAA Board of Directors in January 1999. In 2003-2004, she was the first person to serve as Board Chair of both KHEAA and The Student Loan Peoplesm after the Kentucky General Assembly ratified Executive Orders in 2003 making the membership of the Boards identical. She is a Guidance Counselor at Daviess County High School, graduate of the Leadership Kentucky Class of 2004 and member of the Kentucky Association of School Counselors and Kentucky Association of Secondary and College Admissions Counselors. She has 23 years of education-related experience and earned her Master of Arts degree from the University of Kentucky and Master of Instruction from the University of Delaware.



Dr. Joe L. McCormick Executive Director

McCormick was appointed Executive Director of KHEAA and The Student Loan People in October 2001 following a nationwide search. Dr. McCormick is a graduate of the Leadership Kentucky Class of 2004; is a member of Kentucky's Cradle to College Commission and P-16 Council; and serves on the Boards of Directors of Kentucky's Affordable Prepaid Tuition, the National College Access Network and the National Council of Higher Education Loan Programs (NCHELP). Previously, he was Vice President for National Affairs for the Apollo Group and a faculty member of the University of Phoenix Online. Other prior positions include Chair of the Direct Loan Task Force within the U.S. Department of Education, Executive Director of the Alaska Commission on Postsecondary Education, and President and CEO of the Texas Guaranteed Student Loan Corporation. Over the years, he was elected president of NCHELP and the National Association of Student Financial Aid Administrators. He earned his Ph.D. from the University of Texas at Austin.



Who We Are

The Kentucky Higher Education Assistance Authority (KHEAA) was created in 1966 by the Kentucky General Assembly to improve access to college and technical training by guaranteeing student loans, providing student financial aid and distributing information about college opportunities. In 1978, The Student Loan People was created as the Kentucky Higher Education Student Loan Corporation (KHESLC), an independent corporation, to make, finance, service and collect educational loans. KHESLC assumed the trademark name of The Student Loan People in 1999. The two organizations have combined their efforts to:

- ◆ Secure full funding of state grant and scholarship programs.
- ◆ Fully utilize technology to modernize and simplify student financial aid processes.
- ◆ Expand and improve outreach to positively impact the college-going population.

What We Do

KHEAA:

- ◆ Administers 10 state student aid programs, including the Kentucky Educational Excellence Scholarship (KEES), and assists with administration of two other programs.
- ◆ Administers Federal Family Education Loans for Kentucky and Alabama.
- ◆ Provides an extensive, multifaceted outreach program to distribute financial aid information to positively impact Kentucky's college-going rate.

The Student Loan People:

- ◆ Provides low-cost loans—Federal Stafford Loans, Federal PLUS Loans (for parents) and Federal Consolidation Loans.
- ◆ Offers borrower benefits that significantly reduce the cost of student loans.
- ◆ Provides thousands of free college planning and financial aid publications.
- ◆ Assists KHEAA in providing outreach services, including GoHigherKY.org, the new comprehensive web portal on higher education.
- ◆ Contributes millions of dollars to Kentucky's need-based student aid programs.



Why It's Important to Kentucky

As state-created entities that do not operate for profit, KHEAA and The Student Loan People recycle their revenue into these benefits for Kentucky and its students:

- ◆ Cost-free administration of state student financial aid programs and services for 25 years.
- ◆ \$3 million in FY 2004 for student awards from the state's need-based College Access Program (CAP) Grant and Kentucky Tuition Grant (KTG).
- ◆ Free college planning and financial aid publications for high school students and adults.
- ◆ Development and maintenance of Kentucky's one-stop higher education website—GoHigherKY.org.
- ◆ Outreach counselors who make presentations and participate in college fairs and financial aid workshops all across the state.
- ◆ Borrower benefits offered by KHEAA and The Student Loan People:
 - Waive the guarantee fee (1%) and origination fee (3%) for all Kentucky students.
 - Address Kentucky's critical shortage areas in teaching and nursing.
 - Encourage students who enter these professions to remain in Kentucky.
- ◆ Since the mid-1980s, KHEAA and The Student Loan People have generated sufficient revenue to cover all FFELP administrative costs.
- ◆ Without using state tax dollars, KHEAA and The Student Loan People support Kentucky's economy through employment of approximately 500 staff.



Improving Kentucky's Economy . . . One Citizen at a Time

The Kentucky Higher Education Assistance Authority (KHEAA) and The Student Loan People pursued their mission with new vigor and determination in FY 2004, taking to heart that higher education is the key to improving the lives of Kentuckians. Studies clearly show those who pursue and complete a college education or technical training enjoy a wide range of personal, financial and other lifelong benefits—higher earnings, more

career opportunities and a more comfortable lifestyle.

The benefits of higher education, however, are not purely personal. Higher education benefits the entire Commonwealth in the form of lower unemployment, increased tax revenue, less dependence on social programs, lower incarceration rates and higher levels of civic participation.

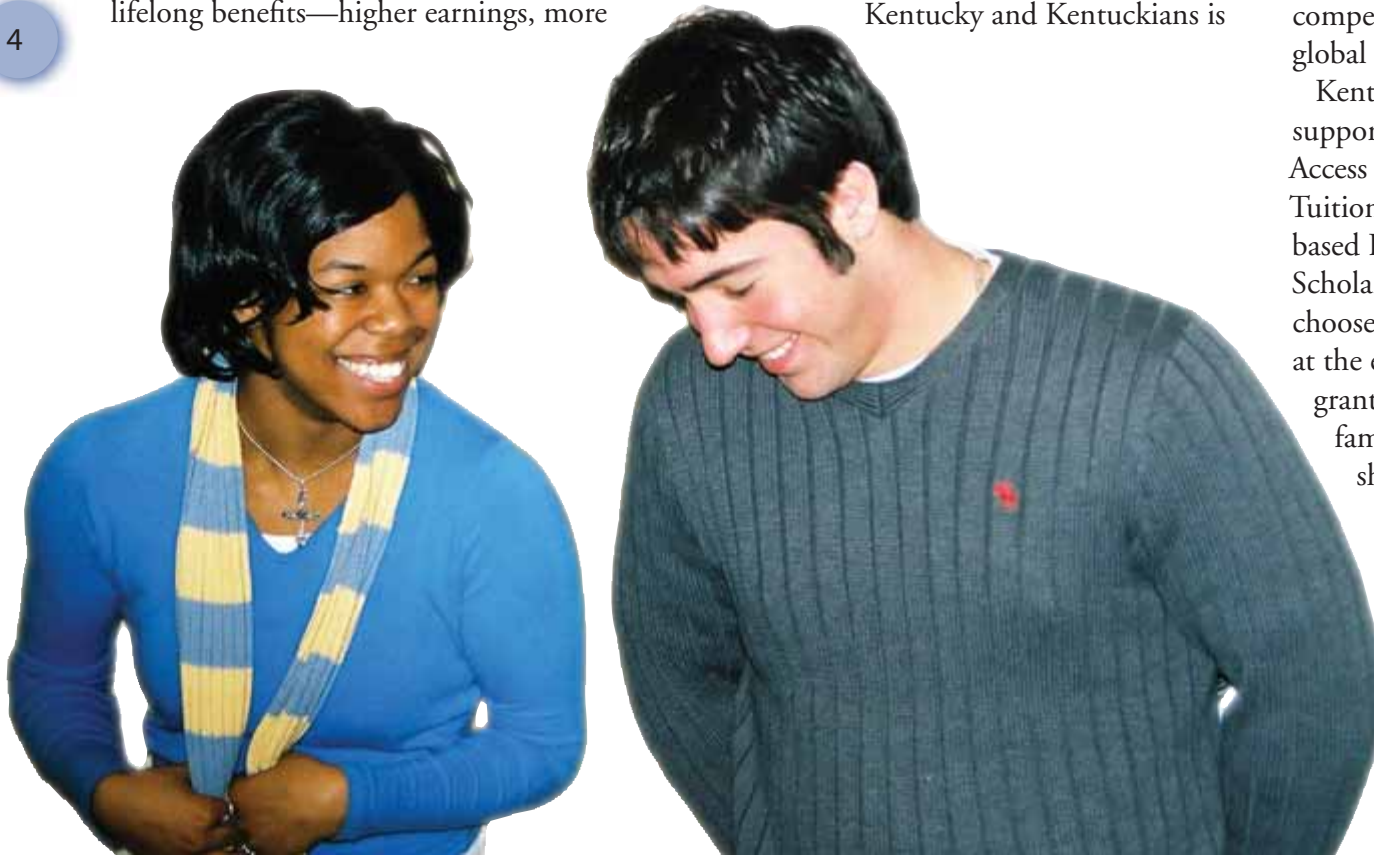
The future economic well-being of Kentucky and Kentuckians is

directly tied to increasing the educational attainment of our citizens.

During 2004, our staff worked tirelessly with many partners to improve our programs and services to make higher education more accessible for Kentucky families; help the state meet its goal of increasing the college-going rate; and, as a result, move the Commonwealth forward.

Higher education is critical to Kentucky's competitiveness and success in today's global economy.

Kentucky is on the right track—supporting both the need-based College Access Program (CAP) Grant and Kentucky Tuition Grant (KTG) and the merit-based Kentucky Educational Excellence Scholarship (KEES)—while most states choose to support one type of student aid at the expense of the other. CAP provides grants to Kentucky students whose families demonstrate the amount they should be able to contribute to their higher education expenses is not enough to cover the cost of college. KTG seeks to equalize tuition of Kentucky's private colleges and offers students with demonstrated



financial need a choice of attending a broad range of independent Kentucky schools. KEES rewards high school students with scholarships for good grades and ACT (or SAT-equivalent) scores.

To fill the gap between student financial aid and the cost of higher education, KHEAA and The Student Loan People provide exceptionally low-cost loans (BestStart) for all students and aggressive loan forgiveness programs (Best in Class and Best in Care) to encourage teachers and nurses to remain in Kentucky when they graduate and enter the workforce. Opportunities to save are extremely important since more students than ever before must borrow to pay college expenses.

To ensure students are aware of higher education options and student financial aid,

KHEAA and The Student Loan People, in collaboration with several other education agencies and organizations, developed the comprehensive, statewide higher education website, GoHigherKY.org, to provide Kentuckians a single, powerful source for information about higher education in Kentucky. KHEAA and The Student Loan People employ a variety of other methods to spread the word about higher education and student aid—outreach counselors who make school visits and presentations statewide; free hard-copy and online publications for high school students and adults; and joint sponsorship, along with the Kentucky Association of Student Financial Aid Administrators, of free College Goal Sunday workshops to help families complete the Free Application for Federal Student Aid (FAFSA).

We hope you will take a look at our FY 2004 report to see other activities and accomplishments made possible by our staff, our boards of directors, state legislators and the Governor as well as our many school and lender partners. What an honor and privilege it is to serve Kentuckians and help build better lives and a better future for the Commonwealth.

Marcia K. Carpenter
Board Chair

Dr. Joe L. McCormick
Executive Director

By now, many Kentucky students and families are aware of the importance of making good grades and ACT scores to earn KEES awards to help them pay for college or technical training. Since 1999, more than 220,000 students have earned scholarships totaling over \$170 million, which can generally be used by each student for four years of higher education.



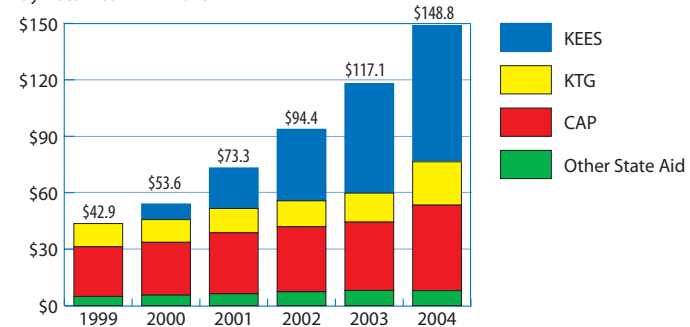
KHEAA Highlights

- ◆ Disbursed \$148.8 million in state aid in FY 2004—more than double the amount disbursed in FY 2001.
- ◆ Guaranteed \$960.9 million in FFELP loans—a 21% increase over FY 2003—making KHEAA 10th in volume among the nation's 36 guarantors. Staff project KHEAA will guarantee \$1 billion in student loans in FY 2005.
- ◆ Increased new loan guarantee volume 22% to \$672 million, including:
 - ❖ \$363 million for Kentucky.
 - ❖ \$287 million for Alabama.*
 - ❖ \$22 million for other states across the U.S.
- ◆ Increased guarantees outstanding to \$2.9 billion and original principal outstanding totaled \$3.6 billion.
- ◆ Lowered the default recurrence rate to 50.77%—a 4.5% reduction from FY 2003.
- ◆ Paid \$1.9 million in annual administrative costs of Kentucky's student financial aid programs with agency-generated revenue, allowing General Fund appropriations to go directly to students in the form of awards.
- ◆ Collected more than \$60 million in defaulted student loans—the fourth-best rate in the nation among agencies that guarantee student loans.

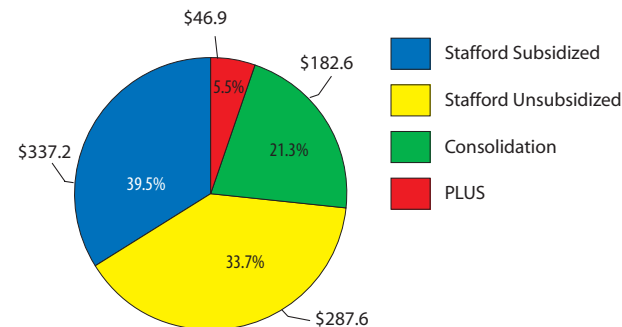
* The U.S. Department of Education authorized KHEAA to be the designated guarantor of the FFELP in Alabama in 1996.

Student Aid Disbursements

By Fiscal Year in Millions

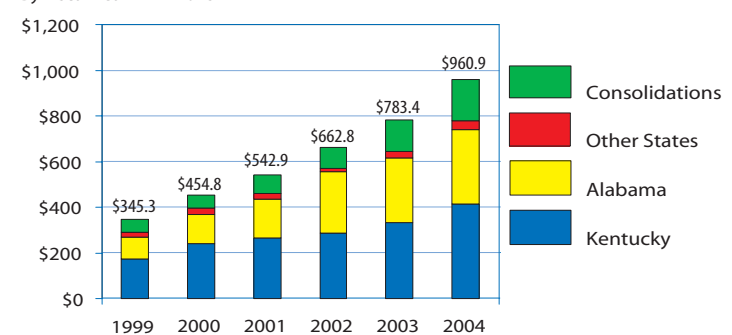


Loan Guarantee Volume by Type (Net of Cancellations)



Loan Guarantees (Gross)

By Fiscal Year in Millions

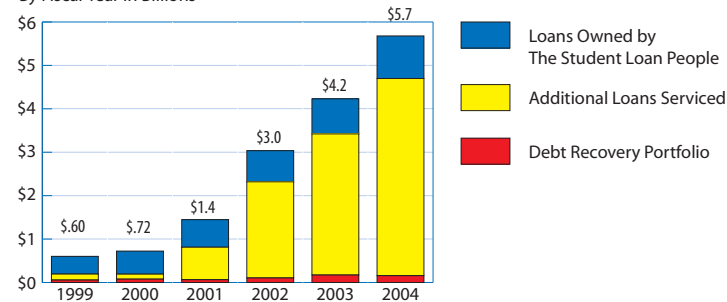


The Student Loan People Highlights

- ◆ Improved market share from 46% to 66%.
- ◆ Increased loan portfolio serviced 36% to \$5.7 billion.
- ◆ Increased FFELP originations 83% to \$229 million.
- ◆ Increased FFELP consolidations 51% to \$92 million.
- ◆ Improved ranking among FFELP loan holders from 38th in 2002 to 37th in 2003 (latest rankings).
- ◆ Improved ranking among FFELP originators from 40th in 2002 to 32nd in 2003 (latest rankings).
- ◆ Ranked the 8th fastest-growing student loan originator in the nation in *The Greentree Gazette*, May 2004.
- ◆ Provided Kentuckians the best borrower benefits package.
- ◆ Earned the Greater Louisville, Inc., Work/Life Alliance Award for the eighth straight year.

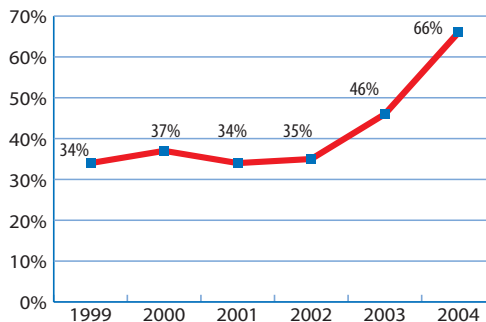
Loan Portfolio Growth

By Fiscal Year in Billions



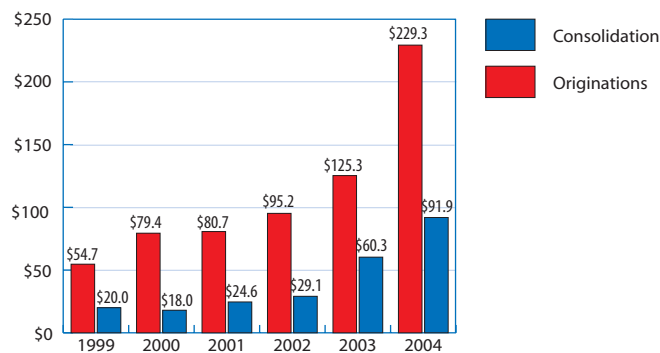
FFELP Market Share in Kentucky

By Fiscal Year



FFELP Originations and Consolidations

By Fiscal Year in Millions



Outreach Services

KHEAA and The Student Loan People administer a variety of free outreach initiatives to apprise Kentuckians about higher education and student financial aid.

- ◆ **www.GoHigherKY.org**—A higher education website developed in collaboration with Kentucky education agencies and organizations for use by students of all ages. Students can plan their high school classes, explore career options, choose a college, apply online, take online campus tours, learn about financial aid, search for scholarships, transfer information to the FAFSA and transfer high school transcripts.
- ◆ **www.kheaa.com**—A higher education website that is a warehouse of college financial aid information. Students can access their KEES accounts, learn more about financial aid programs, estimate their expected family contribution and read KHEAA publications online.
- ◆ **Free college planning publications for high school students**—A series of hard-copy and online publications based on grade level, which includes *Getting Started*, *Getting Set*, *Getting Ready* and *Getting In*. Guidance counselors distribute the books to students each fall.
- ◆ **Affording Higher Education**—A financial aid reference book listing more than 3,200 scholarships, grants, loans and other programs specifically for Kentucky students.
- ◆ **Adults Returning to School**—An excellent source of college planning information of specific interest to adult students.
- ◆ **Regional Outreach**—Nine outreach counselors, who are assigned to and live in regions across the state; participate in college and career fairs, financial aid workshops, classroom presentations, and media interviews; and make personal, on-site visits to those who can assist in providing higher education and financial aid information.
- ◆ **College Info Road Show**—A traveling classroom with onboard outreach staff and laptops to access GoHigherKY.org and other websites, identify higher education institutions that meet specific educational goals, locate sources of financial aid for which the student is eligible and assist in the aid application process.
- ◆ **Borrower Advocates**—Staff who counsel borrowers on repayment options as well as deferments, forbearances and other ways of keeping student loan accounts in good standing.



Direct Student Benefits—FY 2004

KHEAA administers a variety of student financial aid programs, Federal Family Education Loans, and 529 plans to help families pay higher education expenses.

- ◆ **Kentucky Educational Excellence Scholarship (KEES)**—For encouraging and recognizing students based on their GPAs and ACT scores.
- ◆ **College Access Program (CAP) Grant**—For financially needy students to attend Kentucky postsecondary schools.
- ◆ **Kentucky Tuition Grant (KTG)**—For financially needy students attending one of Kentucky's independent higher education institutions to help equalize tuition with that of public schools.
- ◆ **Teacher Scholarship**—For highly qualified, financially needy students seeking initial teacher certification.
- ◆ **Osteopathic Medicine Scholarship**—For students attending Pikeville College School of Osteopathic Medicine to equalize tuition with that of other state medical schools.
- ◆ **Kentucky National Guard Tuition Award**—For active Guard members in good standing.
- ◆ **Early Childhood Development Scholarship**—For students working at least 20 hours weekly in an early childhood setting.
- ◆ **KHEAA Work-Study Program**—For students attending participating schools to earn wages to help pay higher education costs.
- ◆ **Federal Stafford Loan**—For undergraduate, graduate and professional students to fill the gap between other student aid and the cost of attendance.
- ◆ **Federal PLUS Loan**—For parents who borrow on behalf of the student.
- ◆ **Federal Consolidation Loan**—For borrowers in repayment.
- ◆ **Kentucky's Affordable Prepaid Tuition (KAPT)**—For families to prepay tuition and guarantee the cost of tomorrow's tuition at lower prices today for their beneficiary.
- ◆ **Kentucky Education Savings Plan Trust (KESPT)**—For families to save for future tuition, fees, room, board, books, supplies and equipment of their beneficiary.

State Aid Program Funds	Recipients	Amount
Kentucky Educational Excellence Scholarship (KEES)	60,450	\$72,363,300
College Access Program (CAP) Grant	40,080	45,420,200
Kentucky Tuition Grant (KTG)	10,870	23,012,900
Teacher Scholarship/Osteopathic Medicine Scholarship		
Conversion Loan Service Cancellation and Write-off	1,240	3,764,900
Kentucky National Guard Tuition Award	1,210	2,541,900
KHEAA Work-Study	1,100	919,100
Early Childhood Development Scholarship	1,000	771,300
Total	115,950	\$148,793,600

Federal Family Education Loan Program Guarantees*	Loans	Amount
Subsidized Stafford	115,800	\$391,196,000
Unsubsidized Stafford	85,790	334,248,800
PLUS	7,390	52,880,600
Consolidation	12,420	182,580,800
Total	221,400	\$960,906,200

Other Benefits	Recipients/Loans	Amount
Teacher Scholarship/Loan**	563	\$2,025,700
Osteopathic Medicine Scholarship/Loan**	90	1,023,500
Kentucky Education Savings Plan Trust (KESPT) Payments	440	1,203,600
Kentucky's Affordable Prepaid Tuition (KAPT) Payments	2	2,600
Insurance Premium Waiver	167,050	6,248,100
Total	168,145	\$10,503,500

* Represents original amounts guaranteed.

** These programs are scholarships if service requirements are fulfilled; otherwise, they are repayable loans with interest.

Borrower Benefits

The Student Loan People has created three unique programs to help borrowers save on their student loans—BestStart, Best in Class and Best in Care. Borrowers who choose The Student Loan People as their lender enjoy no fees, credits to loan principal for consistent on-time payments and interest rate reductions for automatic payments.

Almost all Kentucky schools participate in the Federal Family Education Loan Program (FFELP) administered by KHEAA and The Student Loan People and can offer these savings.

10



For All Stafford Loan Borrowers

- ✓ 0% origination fee
- ✓ 0% insurance fee
- ✓ 3.5% credit to the original loan principal after the first 30 consecutive, on-time payments
- ✓ .25% interest rate reduction for automatic payments



For Kentucky RNs, LPNs and LVNs

Kentucky nurses with BestStart or PLUS Loans can receive additional repayment benefits. Only interest forgiveness applies to Consolidation Loans.

- ✓ Interest forgiveness at the end of each fiscal year for nurses working in Kentucky (any interest paid is credited to the loan principal)
- ✓ Up to 20% loan forgiveness for RNs, LPNs and LVNs for each year of service in Kentucky



For Kentucky Teachers, Guidance Counselors and Librarians

Qualified Kentucky teachers with BestStart loans can receive additional repayment benefits on any loan held by The Student Loan People, including Consolidation (except spousal consolidation) and PLUS Loans.

- ✓ Interest forgiveness at the end of each academic year for each year of service at public or nonprofit Kentucky elementary or secondary schools (any interest paid is credited to the loan principal)
- ✓ Up to 20% loan forgiveness each year for teachers in the following critical shortage areas at public or nonprofit Kentucky elementary or secondary schools:
 - ❖ Special education
 - ❖ Math
 - ❖ Science
 - ❖ English as a Second Language (ESL)

Benefit Savings to Students

	FY2004		
	Loans	Savings	Cumulative
BestStart for all FFELP Stafford Borrowers	70,000	\$10,072,100	\$14,323,400
Subtotal		\$10,072,100	\$14,323,400
Best in Class Forgiveness for Teachers			
Interest Forgiveness			
✓ Teachers, Counselors, Librarians	3,360	\$729,200	\$1,591,100
Interest and 20% Principal Forgiveness			
✓ Special Education Teachers	3,300	4,657,200	8,205,800
✓ Science Teachers	620	779,400	1,787,700
✓ Math Teachers	770	790,500	1,635,200
✓ ESL Teachers	20	65,000	145,000
Subtotal		\$7,021,300	\$13,364,800
Best in Care Forgiveness for Nurses			
Interest Forgiveness for Registered Nurses	1,880	\$451,000	\$1,121,500
Interest and 20% Principal Forgiveness	230	321,800	322,300
Subtotal		\$772,800	\$1,443,800
Contributions to State Aid Programs		Contributions	
✓ College Access Program (CAP) Grant		\$1,181,900	\$2,227,600
✓ Kentucky Tuition Grant (KTG)		927,200	1,881,500
✓ KHEAA Work-Study		890,900	1,890,900
Subtotal		\$3,000,000	\$6,000,000
KHEAA Waiver of 1% Guarantee Fee since 1996			
		\$6,248,100	\$33,252,500
Subtotal		\$6,248,100	\$33,252,500
Total Benefits to Students		\$27,114,300	\$68,384,500



Selected Financial Information

as of June 30, 2004, and for the fiscal year then ended

Governmental and Fiduciary Funds

Proprietary Funds

KHEAA

The Student Loan People

Governmental Fund

Federal Student Loan Reserve Fund

Kentucky's Affordable Prepaid Tuition

Kentucky Education Savings Plan Trust

Agency Operating Fund and Internal Service Fund

2004 Operating Fund and Education Finance Funds

Statement of Net Assets

Current assets	\$ 4,137,823	\$ 16,539,316	\$ 14,761,471	\$ 52,472,982	\$ 12,344,190	\$ 112,872,422
Loans, net						978,578,931
Other noncurrent assets	9,971,802	4,838,027	73,618,279		25,958,499	81,335,113
Total assets	14,109,625	21,377,343	88,379,750	52,472,982	38,302,689	1,172,786,466
Current liabilities	269,709	6,306,848	945,367	76,607	3,886,624	104,698,194
Noncurrent liabilities			99,323,706		7,735,000	967,742,839
Total liabilities	269,709	6,306,848	100,269,073	76,607	11,621,624	1,072,441,033
Total Net Assets	\$13,839,916	\$15,070,495	\$(11,889,323)	\$52,396,375	\$26,681,065	\$100,345,433

Statement of Activities

Program revenue/additions	\$146,468,072	\$44,231,046	\$10,228,911	\$18,044,668	\$20,017,167	\$81,977,715
Direct expenses/deductions	148,793,614	47,945,673	12,624,003	2,191,149	14,140,153	62,220,539
Indirect expenses	3,729,807					
Total	(6,055,349)	(3,714,627)	(2,395,092)	15,853,519	5,877,014	19,757,176
Interfund transfers	2,964,707				(2,964,707)	
Transfer to KAPT					(119,136)	
Transfer from Internal Service Fund			119,136			
Transfer from KHESLC	3,000,000					(3,000,000)
Change in net assets	(90,642)	(3,714,627)	(2,275,956)	15,853,519	2,793,171	16,757,176
Net assets at beginning of year	13,930,558	18,785,122	(9,613,367)	36,542,856	23,887,894	83,588,257
Net assets at end of year	\$13,839,916	\$15,070,495	\$(11,889,323)	\$52,396,375	\$26,681,065	\$100,345,433

To request a copy of KHEAA's audited financial statements, call (502) 696-7421. To request a copy of The Student Loan People's audited financial statements, call (502) 329-7145.

Kentucky Higher Education Assistance Authority
P.O. Box 798, Frankfort, KY 40602-0798
Toll Free 800.928.8926
www.kheaa.com

The Student Loan People
P.O. Box 24266, Louisville, KY 40224-0266
Toll Free 888.678.4625
www.studentloanpeople.com

KHEAA and The Student Loan People do not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or services and provide, upon request, reasonable accommodations to afford individuals with disabilities an equal opportunity to participate in all programs and activities. Printed 12/04.

College planning at full gallop!

Race toward the future with GoHigherKY.org

KHEAA and The Student Loan People are pleased to introduce GoHigherKY.org, a free one-stop website to help Kentuckians learn how to plan and pay for college or technical training. GoHigherKY.org guides students of all ages from early planning, application and admissions to applying for financial aid. GoHigherKY.org's powerful tools include online scholarship searches, career exploration—even touring campuses. Saddle up with GoHigherKY.org, and harness all higher education has to offer.



GoHigherKY.org is sponsored by the Association of Independent Kentucky Colleges and Universities, Council on Postsecondary Education, Kentucky Community and Technical College System, Kentucky Department of Education, GEAR UP, Kentucky Adult Education, KHEAA and The Student Loan Peoplesm.